

Association of Independent Beverage Distributors Fuel Hedging Program

**Want to protect your budget against
unforeseeable fuel cost increases and contain
cost volatility? Learn how!**

How: Purchase fuel options through the Association program.

Definition: The New York Mercantile Exchange (NYMEX) trades diesel fuel (as heating oil: HO) and unleaded gasoline (as reformulated gasoline blendstock for oxygenate blending: RBOB). These raw commodities comprise 70% of the cost of fuel (local refinery cost and taxes are added to generate the cost at the pump).

You can **protect 70% of your cost at the pump** by entering into hedging contracts for HO and RBOB. *This program does not require you to purchase your gasoline at specific locations or to actually purchase any specific quantity of gasoline.*

Buying a fuel option is much like buying insurance against higher prices and you pay a premium up front for this protection.

Why buy through the Association: Fuel contracts require a minimum of 42,000 gallons per month for a contract. Many Distributors do not have enough volume to enter directly into a contract. Through the Association program, you can buy smaller contracts and hedge your fuel costs.

Option contracts work as an insurance policy on your fuel costs.

How it works:

1. You decide how much fuel you want to protect each month for a specific number of months for either diesel and/or unleaded fuel.
2. The strike price for a gallon of fuel is \$.20 above the futures market.
3. You pay an option cost (or price per gallon for protection). The option cost for the entire contract is due immediately.
4. Settlement occurs on a monthly basis. If the average NYMEX price is more than the strike price – you will receive a settlement. If the average price is less than the strike price, that portion of the contract expires with no settlement.

Example

- Assumptions:**
- (1) HO is trading on the NYMEX at \$1.95/gallon.
 - (2) Strike price per gallon is \$2.15
 - (3) Fuel option price per gallon is \$0.315
 - (4) You want to protect 120,000 gallons for the calendar year 2009.

The Strike price and fuel option cost per gallon will fluctuate depending on the current market.

Action: Purchase a contract for 120,000 gallons for 2009 at an option price of \$.315/gallon or a total cost of \$37,800. This payment is due immediately.

Return: 1/12 of the contract will be settled at the end of each calendar month. If the average market price for diesel fuel for the month is above the \$2.15/gallon, a settlement will be paid. If it is less than \$2.15, the contract will expire with no payment and you are out your upfront cost. Assume at the end of January 2009, the average market price is \$2.30/gallon. You will receive \$1,500. **Calculated as follows: $\$2.30 - \$2.15 = \$.15 \times 10000$ gallons.** This settlement will occur at the end of each month. You do not need to document how much actual fuel you purchased during the month or the price that you paid.

Getting Started:

1. Contact AIBD @ 678-539-2328 to receive an application and contract to complete. E-mail completed application to aibd@ccbanet.com
2. Determine how many gallons you want to protect and for what time period and contact AIBD to receive a quote (remember the market fluctuates constantly so the strike and option price will change).
3. Contact AIBD by e-mail to commit. You will receive an invoice immediately and it will be due upon receipt.
4. Settlement will occur at the end of each month. You should receive a statement and any settlement dollars due by the 10th working day.

If you have any questions please contact Ann Burton at 678-539-2302.